

MONTGOMERY WARD
Seventy-First Annual Report
Twelve Months Ended
January 31
1943

BOARDS

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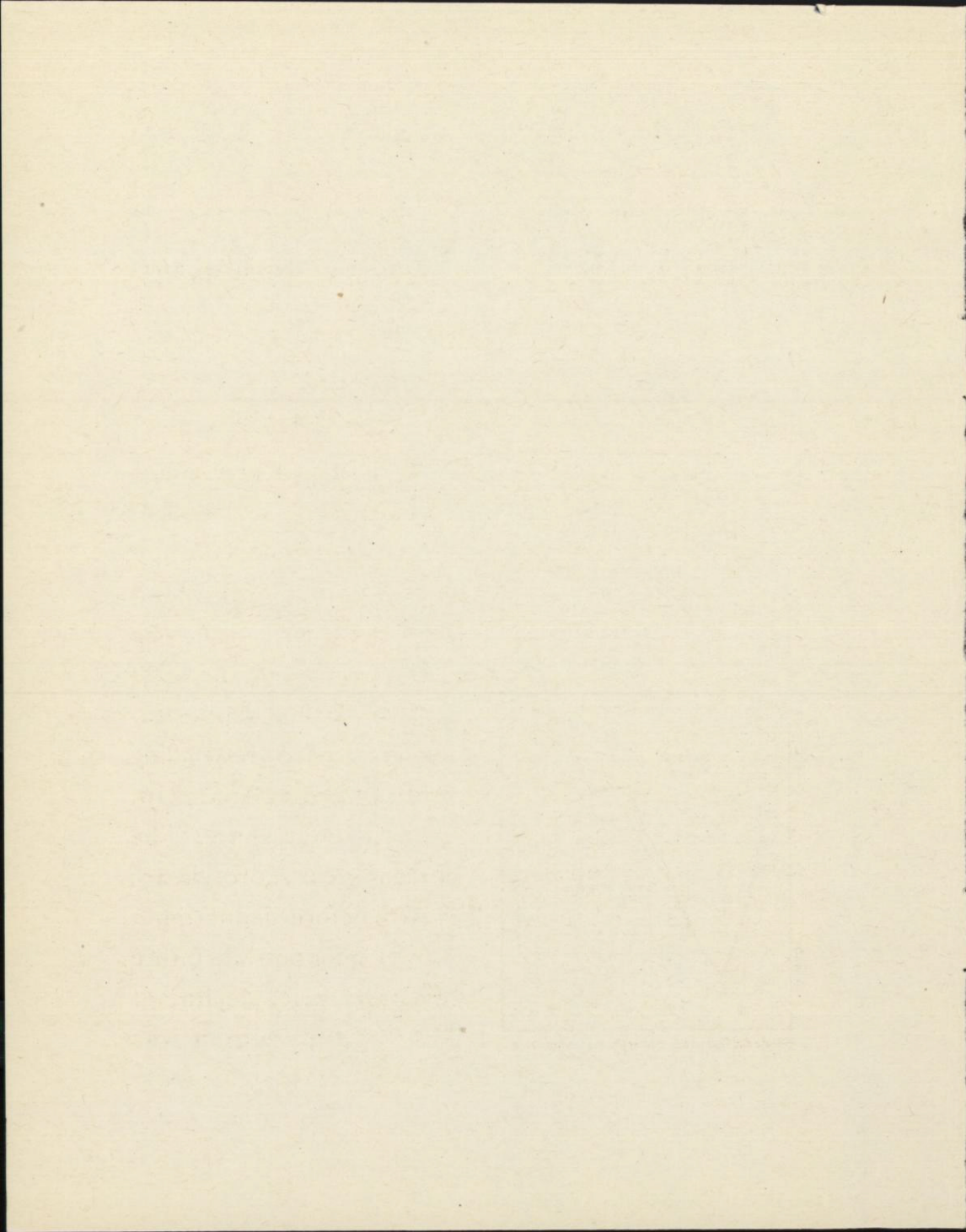
Montgomery Ward & Co.

INCORPORATED

(AN ILLINOIS CORPORATION)



Seventy-First Annual Report
Twelve Months Ended
January 31, 1943

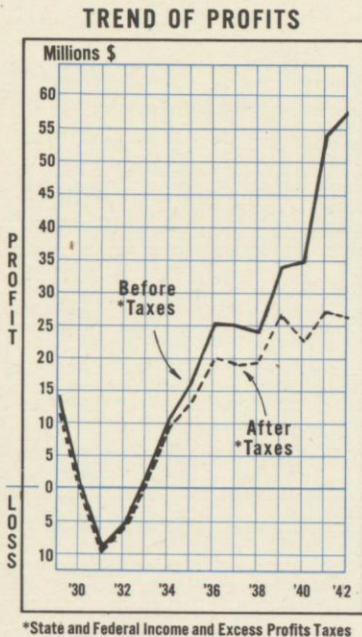


Chicago, March 15, 1943

*To the Shareholders of
Montgomery Ward & Co.:*

Net profits were \$26,437,584 for the fiscal year ended January 31, 1943, which is

equivalent to \$4.79 per share of outstanding common stock, after deducting dividends paid on the Class "A" stock. For the preceding year the corresponding profits were \$27,351,716, or \$4.97 per share. The current year's profits are stated before deducting a provision for possible future inventory price decline of \$10,000,000, which was

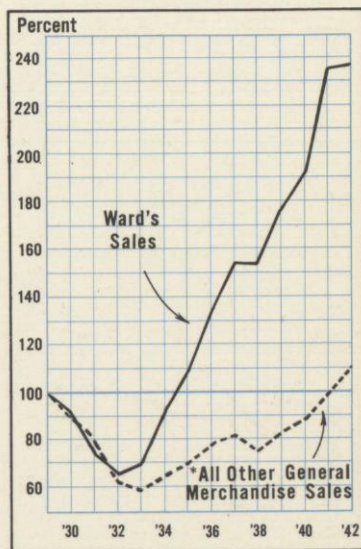


partially offset by the transfer of \$4,000,000 of excess reserves for doubtful time payment accounts. The provision for the preceding year was \$5,000,000.

Net profits before taxes on income were \$57,597,584, representing an increase of \$3,585,868, or 6.6% over the previous year. The increase of \$4,500,000 in the provision for income and excess profits taxes, however, reflecting the higher rates imposed by the 1942 Revenue Act, reduced the net profits after taxes by \$914,132.

Net sales for the year were \$635,006,979, a slight dollar increase over the previous all-time high of \$632,708,657 for the preceding year, although the volume of merchandise sold declined. This small dollar gain was made in spite of curtailment of time payment sales due to Federal reg-

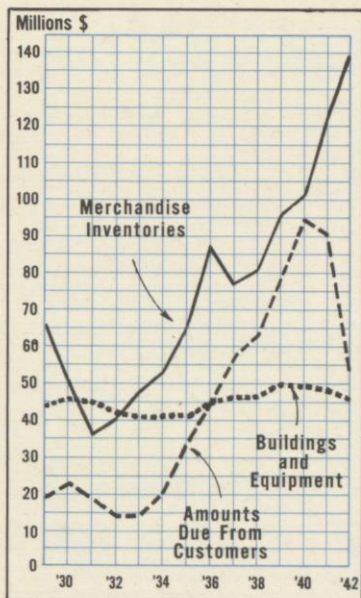
TREND OF SALES



*From U. S. Department of Commerce
(Excluding Ward's Sales)

ulations, severe merchandise shortages in some lines, and government restrictions on sales of other lines, such as tires. It was necessary to return more than \$46,000,000 to mail order customers who ordered merchandise that could not be supplied, and a large amount of sales were similarly lost in the retail stores. There were 640 retail stores in operation on January 31, 1943. No new stores were opened during the year, and nine unsatisfactory stores were closed.

TREND OF MAJOR ASSETS



The combined effect of a restricted opportunity for extending the normal time payment facilities, and the collection of previously outstanding balances, reduced these accounts by \$41,078,756, with a resultant material improvement in the Company's cash position. On January 31, 1943, cash and United States Treasury Bills amounted to

\$44,104,978, in addition to \$34,930,000 of Treasury Tax Notes, which fully covered the liability for Federal income and excess profits taxes.

The increase of \$16,630,422 in inventories, to \$139,733,375 at the end of the year, is attributable to higher unit costs, and to the necessity for taking delivery of merchandise that has heretofore been received more in conformity with current needs. The reserve of \$15,000,000 for possible future inventory price decline has been provided in anticipation of the disturbed economic situation that may develop after the war.

Net working capital increased \$21,498,436 during the year, to \$200,390,818, and the ratio of current assets to current liabilities improved to 6.4 to 1 at the end of the year.

Cash dividends amounting to \$11,845,172 were distributed during the year, of which \$1,410,878 was paid to the Class "A" shareholders, and \$10,434,294, or \$2.00 per share, to the holders of common stock. The increase of \$8,592,412 in earned surplus, to \$91,245,672 at the end of the year, increased the book value of the common stock on that date to \$42.19 per share.

The present improvement in the Company's financial position arises from the restrictive factors that accompany the country's tremendous war effort, but it is anticipated that the return of peace will bring opportunities for profitable expansion of the Company's merchandising facilities. An increase in the number of shares of authorized common stock is contemplated, so that the Company will be in a position to provide for the additional capital which will be needed to take advantage of these opportunities, when it becomes clear that they are present.

The trend of governmental restrictions and the difficulties of all phases of wartime operations make it a reasonable expectation that the results for the coming year will be less favorable.

Respectfully submitted,

SEWELL L. AVERY,

Chairman of the Board

Montgomery Ward

Balance Sheet

ASSETS

Current Assets:

Cash		\$ 12,301,286.03
U. S. Treasury Bills (at cost)		31,803,691.94
Receivables—		
Customers' time payment accounts. . .	\$ 54,802,818.64	
Customers' charge and other accounts. .	5,004,262.28	
Due from suppliers, claims receivable, etc.	1,712,391.42	
	<u>\$ 61,519,472.34</u>	
<i>Less</i> —Reserves for doubtful accounts and collection expense.	7,980,079.36	53,539,392.98
Merchandise inventories (priced at the lower of cost or market)		<u>139,733,375.21</u>
Total current assets		<u>\$ 237,377,746.16</u>

Prepaid Catalog Costs and Expenses:

Catalog costs, paper stock, etc.	\$ 4,712,640.12	
Supplies, insurance, etc.	<u>4,633,232.30</u>	9,345,872.42

Post-war Excess Profits Tax Refund. 2,045,000.00

Fixed Assets (at cost, less depreciation reserves):

Land	\$ 5,955,590.17	
Buildings	\$ 35,973,923.84	
Fixtures and equipment.	<u>34,767,665.53</u>	
	<u>\$ 70,741,589.37</u>	
<i>Less</i> —Reserves for depreciation.	<u>35,553,108.04</u>	35,188,481.33
Leasehold improvements (less amortization) . .	<u>5,216,021.04</u>	<u>46,360,092.54</u>
		<u><u>\$ 295,128,711.12</u></u>

& Co., Incorporated

— January 31, 1943

LIABILITIES

Current Liabilities:

Accounts payable.....		\$ 16,264,107.92
Due customers.....		10,278,343.50
Accrued expenses and miscellaneous taxes— Compensation and other operating expenses.....	\$ 6,747,525.78	
State, local, and miscellaneous Federal taxes.....	3,696,950.82	10,444,476.60
Accrued Federal income and excess profits taxes.....	\$ 34,930,000.00	
Less—U. S. Treasury tax notes.....	34,930,000.00	—
Total current liabilities.....		\$ 36,986,928.02

Reserves:

Possible future inventory price decline...	\$ 15,000,000.00	
Self-insurance and contingencies.....	2,860,447.77	17,860,447.77

Capital Stock and Surplus:

Capital stock— Authorized— Class “A”—205,000 shares of no par value, \$7 per share cumulative dividends, non-callable and with preference in liquidation of \$100 per share Common—6,000,000 shares of no par value Issued (stated value)— Class “A”—205,000 shares } Common—5,217,147 shares }	\$ 149,288,340.08	
Earned surplus.....	91,245,671.75	
Less—Treasury stock— Class “A”—3,446 shares.....	\$ 240,534,011.83	
	252,676.50	240,281,335.33
		<u>\$ 295,128,711.12</u>

Montgomery Ward & Co., Incorporated

Comparative Income Account

Year Ended January 31

1943

1942

Net sales.....	<u>\$ 635,006,979.00</u>	<u>\$ 632,708,657.00</u>
Deduct—		
Cost of sales, selling and general expenses, and all taxes other than income taxes..	\$ 573,707,910.73	\$ 575,085,960.93
Depreciation and amortization of fixed properties.....	<u>3,701,484.79</u>	<u>3,610,979.88</u>
	<u>\$ 577,409,395.52</u>	<u>\$ 578,696,940.81</u>
Net profit before taxes on income.....	<u>\$ 57,597,583.48</u>	<u>\$ 54,011,716.19</u>
Provision for income and excess profits taxes—		
Federal and state income taxes.....	\$ 12,765,000.00	\$ 12,935,000.00
Excess profits taxes less post-war refund of \$2,045,000 applicable to year ended January 31, 1943.....	<u>18,395,000.00</u>	<u>13,725,000.00</u>
	<u>\$ 31,160,000.00</u>	<u>\$ 26,660,000.00</u>
Net profit for the year.....	<u>\$ 26,437,583.48</u>	<u>\$ 27,351,716.19</u>
Provision for possible future inventory price decline	\$ 10,000,000.00	\$ 5,000,000.00
Less—Excess reserves for doubtful time payment receivables provided in prior periods.....	<u>4,000,000.00</u>	<u>—</u>
	<u>\$ 6,000,000.00</u>	<u>\$ 5,000,000.00</u>
Balance of net profit to surplus.....	<u>\$ 20,437,583.48</u>	<u>\$ 22,351,716.19</u>

Montgomery Ward & Co., Incorporated

Earned Surplus Account

Balance January 31, 1942		\$ 82,653,260.27
Net profit for the year ended January 31, 1943, after provision of \$10,000,000 for possible future inventory price decline less excess reserves of \$4,000,000 for doubtful time payment receivables		<u>20,437,583.48</u>
Total		\$103,090,843.75
Deduct—		
Dividends on Class "A" stock—\$7.00 per share..	\$ 1,410,878.00	
Dividends on common stock—\$2.00 per share..	<u>10,434,294.00</u>	<u>11,845,172.00</u>
Balance January 31, 1943		<u><u>\$ 91,245,671.75</u></u>

To the Board of Directors,

Montgomery Ward & Co., Incorporated:

We have examined the balance sheet of MONTGOMERY WARD & CO., INCORPORATED (an Illinois corporation) as of January 31, 1943, and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods, at times, and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. We made a similar examination for the preceding year.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of the company at January 31, 1943, and the results of its operations for the two years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois, March 6, 1943

ARTHUR ANDERSEN & CO.

Montgomery Ward

Comparison of

January 31

1943

1942

ASSETS

Current Assets:

Cash and U.S. Treasury Bills	\$ 44,104,977.97	\$ 15,955,864.32
Receivables, less reserves	53,539,392.98	91,073,513.80
Merchandise inventories	139,733,375.21	123,102,953.27
Total current assets	\$ 237,377,746.16	\$ 230,132,331.39
Investments, etc.	—	678,173.19
Prepaid Catalog Costs and Expenses ..	9,345,872.42	10,508,081.83
Post-war Excess Profits Tax Refund ..	2,045,000.00	—
Fixed Assets, less depreciation reserves ..	46,360,092.54	48,981,230.09
	<u>\$ 295,128,711.12</u>	<u>\$ 290,299,816.50</u>

LIABILITIES

Current Liabilities	\$ 36,986,928.02	\$ 51,239,949.87
Reserves	17,860,447.77	7,370,942.78
Capital Stock and Surplus:		
Capital stock issued (stated value)	149,288,340.08	149,288,340.08
Less—Treasury stock	252,676.50	252,676.50
Earned surplus	91,245,671.75	82,653,260.27
	<u>\$ 295,128,711.12</u>	<u>\$ 290,299,816.50</u>

Net Working Capital	<u>\$ 200,390,818.14</u>	<u>\$ 178,892,381.52</u>
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& Co., Incorporated

Balance Sheets

January 31

1941	1940	1939	1938
\$ 16,413,449.52	\$ 14,396,411.78	\$ 24,392,658.32	\$ 18,515,250.97
94,715,917.04	78,880,212.23	62,593,190.86	57,353,768.79
101,710,763.19	96,323,612.35	81,494,245.14	77,361,847.55
<u>\$ 212,840,129.75</u>	<u>\$ 189,600,236.36</u>	<u>\$ 168,480,094.32</u>	<u>\$ 153,230,867.31</u>
856,717.66	5,234,915.76	6,012,450.51	6,648,496.54
8,357,296.38	7,153,715.14	6,655,355.50	6,412,777.25
—	—	—	—
49,623,059.86	49,848,028.48	46,683,089.82	46,896,602.03
<u>\$ 271,677,203.65</u>	<u>\$ 251,836,895.74</u>	<u>\$ 227,830,990.15</u>	<u>\$ 213,188,743.13</u>
\$ 49,362,756.68	\$ 40,704,948.96	\$ 31,901,197.85	\$ 27,675,902.29
1,132,067.31	1,132,412.06	1,095,730.48	1,087,136.83
149,288,340.08	149,288,340.08	149,288,340.08	149,288,340.08
252,676.50	252,676.50	252,676.50	252,676.50
72,146,716.08	60,963,871.14	45,798,398.24	35,390,040.43
<u>\$ 271,677,203.65</u>	<u>\$ 251,836,895.74</u>	<u>\$ 227,830,990.15</u>	<u>\$ 213,188,743.13</u>
<u>\$ 163,477,373.07</u>	<u>\$ 148,895,287.40</u>	<u>\$ 136,578,896.47</u>	<u>\$ 125,554,965.02</u>

Montgomery Ward

Comparison of Sales,

FISCAL YEAR	NET SALES	PROFIT BEFORE INCOME TAXES	INCOME TAXES	NET PROFIT
1942	\$ 635,006,979	\$ 57,597,584	\$ 31,160,000	\$ 26,437,584
1941	632,708,657	54,011,716	26,660,000	27,351,716
1940	515,910,915	35,083,017	12,055,000	23,028,017
1939	474,882,032	34,310,645	7,300,000	27,010,645
1938	413,961,241	24,044,956	4,400,000	19,644,956
1937	414,090,544	25,110,029	5,900,000	19,210,029
1936	361,297,059	25,198,914	5,000,000	20,198,914
1935	293,042,357	16,837,310	3,310,000	13,527,310
1934	249,805,721	11,161,054	2,000,000	9,161,054
1933	187,632,543	2,227,957	—	2,227,957
Totals	\$ 4,178,338,048	\$ 285,583,182	\$ 97,785,000	\$ 187,798,182

& Co., Incorporated

Earnings, and Surplus

DIVIDENDS	INVENTORY PRICE DECLINE RESERVE	EARNED SURPLUS (End of Year)	BOOK VALUE PER COMMON SHARE
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\$ 11,845,172	\$ 15,000,000	\$ 91,245,672	\$ 42.19
11,845,172	5,000,000	82,653,260	40.54
11,845,172	—	72,146,716	38.53
11,845,172	—	60,963,871	36.38
9,236,598	—	45,798,398	33.48
11,832,663	—	35,390,040	31.48
19,318,175	—	28,012,674	29.98
2,469,036	—	27,131,935	28.46
2,116,317	—	16,374,450	26.01
1,058,158	—	9,640,643	24.44
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\$ 93,411,635			
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Montgomery Ward & Co., Incorporated

DIRECTORS

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PHILIP R. CLARKE
DAVID A. CRAWFORD
PERCY B. ECKHART
CHARLES F. GLORE
WILLIAM L. KEADY

DONALD R. McLENNAN, JR.
HAROLD L. PEARSON
CLEMENT D. RYAN
*SILAS H. STRAWN
JAMES W. THORNE

GEORGE WHITNEY

* Chairman, Executive Committee

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CLEMENT D. RYAN.....*Vice-President*
BERT R. PRALL.....*Vice-President*
HAROLD L. PEARSON.....*Vice-President & Treasurer*
PHILIP W. HARRIS.....*Vice-President*
HAROLD E. MACDONALD.....*Vice-President*
EARL G. WARD.....*General Comptroller*
LESLIE F. CREWS.....*Retail Comptroller*
CARL D. BERRY.....*Mail Order Comptroller*
STUART S. BALL.....*Secretary*
ALBERT T. HUIZINGA.....*Assistant Treasurer*
ROBERT S. SMITH.....*Assistant Treasurer*
JOHN A. BARR.....*Assistant Secretary*
RALPH G. CRANDALL.....*Assistant Secretary*

Transfer Agents

MONTGOMERY WARD & CO., INCORPORATED, CHICAGO, ILL.
J. P. MORGAN & CO., INCORPORATED, NEW YORK, N. Y.

Registrars

THE FIRST NATIONAL BANK OF CHICAGO, CHICAGO, ILL.
BANKERS TRUST COMPANY, NEW YORK, N. Y.



